



**GOVERNOR DIRK KEMPTHORNE**  
**STATE OF THE STATE ADDRESS**  
**TO A JOINT SESSION OF THE FIRST SESSION OF**  
**THE 57th IDAHO LEGISLATURE**  
**January 7, 2003**

Mr. Speaker. Mr. President. Distinguished members of the Legislature.  
Distinguished members of the Judiciary. Fellow Constitutional Officers. Fellow citizens  
of Idaho.

As we gather this evening, we are coping with the effects of a national recession,  
our troops are deployed and the potential for war is real, and Idaho, like every other state,  
is facing financial crisis.

And yet, I affirm - without any hesitation - that because you, my fellow citizens,  
the state of our state is strong.

I spent much of the past year traveling around our great state. I have been in  
every county and visited virtually every community. I saw the determination and spirit of  
Idahoans and I was inspired by these hard working men and women who are the  
backbone of our state.

There is a great sense of optimism that Idaho's future is bright. And it is their  
trust in each of us that has brought you and me here tonight. Our citizens believe in us  
and they believe in the record we've established and the direction of the past four years.

I am committed to healthy, well-educated children. We've worked hard over the  
past four years to keep our communities safe from crime and drugs. We're protecting our  
environment and our clean air and water. And we've worked to create jobs in our  
communities and an economic climate where we can sell our goods and services to the  
world.

The greatest legacy a society can leave is one where its children have a bright  
future. I declared this the "Generation of the Child" four years ago because of my  
commitment to children. You have supported me and my wife, Patricia, as we've worked  
to promote the education and well-being of Idaho families.

Through the Governor's Coordinating Council for Families and Children, we have  
been effective in combining the best efforts of both the public and private sectors and  
making better use of our limited resources.

And we're recognizing many of the unsung heroes in our communities who daily make a difference in the lives of children. We call these everyday heroes "Idaho's Brightest Stars." With the help of the Association of Idaho Cities, each year, a business, an individual, and an organization are awarded \$5,000 from private donors in recognition of their work on behalf of Idaho's youth.

The 2002 Brightest Stars are Bob & Shirley Craig in Shoshone; Meridian City Councilwoman, Tammy de Weerd; and a wonderful organization called "Kinderhaven" in Sandpoint. Whether it's mentoring youth, providing support for youth activities, or caring for abused and neglected children, these "Brightest Stars" truly understand that healthy children equal healthy families which equal healthy communities and a healthy state.

And to make sure that our state meets the future needs of our citizens, last fall, I enlisted a number of talented Idahoans to review state government from top to bottom. I asked this Blue Ribbon Task Force to look short-term and long-term and to make a candid assessment.

I also asked them to dedicate the first two months to making an initial review that might be useful in this current legislative session. They submitted their findings in December and their report is very insightful.

In 60 days, this bipartisan group of volunteers from every part of the state did a tremendous job. I'd like to thank them and recognize the two co-chairs who have provided the leadership for their efforts: our former State Controller, J.D. Williams, and a very respected Idaho entrepreneur, Chuck Winder.

As the Blue Ribbon Task Force, which met earlier today, continues its work in the coming year, they will be a great resource. You'll see that they have affirmed some of the tough decisions we've already made and given us some very thoughtful ideas to consider. You will see some of those in my legislative proposals.

Over the next few years, we will continue to implement measures to improve the efficiency and effectiveness of state government.

In the area of public-private partnerships, an important partner in education is the J.A. and Kathryn Albertson Foundation. We are all aware of the many contributions to education made by this great Idaho family.

Like our health districts four years ago, today, our school districts cannot share basic student information among themselves, nor are they able to communicate statistical data with the State Board of Education and the State Department of Education. We need to correct this.

Tonight, I am proud to announce a major milestone in Idaho education.

The Albertson Foundation is offering an investment of \$35 million to help the state connect our school districts.

Idaho will use this money to develop and implement an Idaho information system to provide instantaneous data on student achievement. This will be a tremendous tool for students, parents, teachers and school administrators. As we discuss assessment and accountability, it is more important than ever to ensure that our assessments are used to improve instruction.

It is one thing to measure what's been learned, and another to learn from what's been measured. Thanks to this significant partnership with the Albertson Foundation, Idaho will be among the first states to implement such a system. I enthusiastically embrace this offer on behalf of the state and look forward to signing legislation that affirms your support of this partnership.

I would add that this education network is enhanced because of the high-speed Internet access in place...thanks to the broadband investment tax credit we enacted in 2001.

These are just a few of the many success stories that guarantee a bright future. But there is another reality that Idaho and every other state is facing.

Almost two years ago, the longest economic expansion in our nation's history came to an end. The American people were shocked as terrorists attacked our homeland and the financial markets began to tumble. The economy was further jolted with the news of corporate scandal.

Economic boom and budget surplus were replaced with the worst stock market since the Great Depression and the worst budget crisis among the states since World War II.

This state and every other state have been dealt a tough hand.

And so, this evening, we will begin a straightforward discussion with the people of Idaho.

We can look to our neighboring states and see their enormous budget shortfalls and the drastic measures to which they're resorting. We're facing similar challenges here in Idaho. But unlike so many other states that are still trying to find ways to get through the current budget year, we will get through this fiscal year with our budget balanced and without having called a special session.

We acted early and our actions were decisive.

When the recession first hit and revenues began to decline, I announced immediate holdbacks that the Legislature later made permanent. We reduced spending, found efficiencies and streamlined government.

For example, we implemented widespread reforms in Medicaid...the first ever. We made changes to contain the soaring costs in our prescription drug program. We improved the quality of our healthcare to Medicaid recipients and reduced costly trips to the emergency room by investing in a program called Healthy Connections.

We reduced the growth of Medicaid from 16% down to just 6%. We consolidated services and eliminated more than 150 positions within the Department of Health and Welfare and in all, we saved taxpayers nearly \$140 million.

But the impacts of the recession went deeper...and so we cut deeper.

We cut most agencies, on average, by 10%. We cut away the fat and cut into the muscle, eliminating nearly \$200 million in state spending. In August, revised revenue estimates painted a bleak picture and so I chose to order an additional holdback of 3.5% percent, from which I exempted public schools and higher education.

These were not popular decisions, especially in an election year.

I know you understand and appreciate the fact that I didn't have to make these decisions. I could have waited and let this Legislature deal with an even bigger problem.

But I didn't.

I've made the reductions and now, I ask you to make them permanent.

But once those cuts were made, we maintained critical services by tapping a number of one-time monies - including the Permanent Building Fund and the Millennium Fund.

In the past four years, our state population has grown significantly. The number of citizens utilizing the services of government has increased. But since the recession began, just like the private sector, we've reduced our workforce.

While Idaho is still below the national average, unemployment is up 1.3%.

Let me contrast that 1.3% to what we've done in state government.

In state government, our reductions in state employees are nearly 2%.

Government has done more with less, thanks largely to the dedication and professionalism of our outstanding state employees.

And when there were still gaps to fill, rather than go to the taxpayers, we cut further and went to our savings accounts.

And while some have criticized these actions, let me tell you what these decisions have done for Idaho: the bond rating agencies on Wall Street - like Standard and Poor's - have reviewed our actions and Idaho has retained the highest possible bond rating.

Please understand the significance of this...only seven states have the highest possible bond rating. Others have been downgraded and 15 have been put on credit watch. That's costing their citizens hundreds of millions of dollars in increased interest payments.

And as Standard and Poor's said, Idaho retained its high bond rating because of the prudent and proactive steps taken by the Executive Branch early in the year to make budget adjustments.

They recognize our sound fiscal leadership.

But in Idaho, our bond rating does more than affect state finances. The State's bond rating is used to determine the rating that every city, every county and every school district gets on their bonds. If the state was to lose its rating, local government and schools would lose theirs - costing them millions of dollars.

That has not happened, and I will do everything I can to keep it from happening.

As the state goes, so goes local government.

That's why it's important to recognize that the assortment of one-time money - nearly \$200 million that we have utilized to get through fiscal year '03 - was never intended to be a long-term solution.

With one-time money, we've bought ourselves the time and opportunity to develop a plan for the future.

The future is now.

We now have the task of implementing that plan for Fiscal Year 2004 and beyond.

Looking at the number of possibilities to make up that \$200 million shortfall, some say that the first option is to solely make further cuts and slash government services.

This will require cutting all state funding to our seven health districts and eliminating the Catastrophic Health Care fund.

This will require eliminating our county extension offices in all 44 counties.

This will require eliminating all state support to our community colleges and all state funded scholarships and financial aid for our students.

This will require completely eliminating all of our economic development efforts -- eliminating the Department of Commerce, cutting all state funding to the Departments of Agriculture, Labor and all of the Self-Governing Agencies.

This will require completely eliminating all general fund support for our environmental programs and the natural resource agencies...including closing our state parks; jeopardizing our stewardship of state lands; and severely impairing our ability to maintain control of one of Idaho's most precious commodities - our water.

But even with all of this, there would still be a \$100 million shortfall and the reality of slashing ALL remaining agencies, including senior programs, Veterans Services, and Medicaid.

And it will require cutting public schools and higher education by close to \$70 million.

I'm not willing to do that.

This would be devastating to Idaho and none of us were elected to eliminate the core services we provide to our citizens.

Another option would be to rely heavily on pumping more one-time money into the budget, in addition to dramatic across-the-board cuts in programs and services.

This option is also unacceptable to me because it only delays the problem for another year and jeopardizes our state's credit rating.

Let me remind you that with education taking 65% of our budget, their share of our shortfall is \$130 million. With health care driving another 20% of the budget, their share is \$40 million. That's \$170 million cut from health care and education just to make up the one-time money.

I'm not willing to do that.

I will not accept a budget that relies on one-time money.

I will not accept a budget that pushes this problem off for another year.

And I will not accept a budget that cuts education and guts the very services that Idahoans expect and deserve.

We must face the challenges head on and solve the problem this year.

And that solution must fall within these parameters:

We must ensure that our children continue to receive the best education possible.

We must ensure that our colleges and universities continue to prepare a growing number of students to compete in the global marketplace.

We must ensure that we foster conditions throughout Idaho for an economic engine to drive us out of this recession.

We must maintain our commitment to our environment while preserving private property rights and protecting Idaho water.

We must ensure that we keep our communities safe and protect our children from drugs and crime.

And, we must ensure the health and well being of our veterans, senior citizens, the disabled and the most vulnerable.

But to maintain all of these essential and proper functions of government, it will require more difficult decisions.

Remember, we have already cut many departments by more than 10%. Many agencies will again see a base reduction in their budgets this year.

But while we will continue to hold the line on spending and work to find efficiencies, the fact is that Medicaid costs and enrollment continue to rise.

There are needs in our public schools and universities that we must meet.

We're nearing capacity in our prisons and we have a continuing obligation to ensure the safety of our citizens.

We will get through fiscal year '03 by making serious reductions and drawing on nearly \$200 million in one-time money.

Now, we face the great challenge of making up the difference.

We stand at a crossroads.

We can go forward or we can let this economy turn us back.

I have made my decision.

I'm going forward - and I need you with me.

We must meet our obligations to our citizens and solve this problem this year...no one-time money, no postponing the problem, no excuses.

On Thursday, I will recommend a budget that represents one of the toughest decisions of my career.

I have labored with all of the options and have come to the conclusion that in order to maintain...not expand, but maintain...the core services to our citizens, it will require additional revenue to the state.

I have used every option available to keep our budget balanced.

Unfortunately, the national economy has taken its toll on Idaho, as it has throughout the union.

We have come to a point I had hoped Idaho would never reach.

While I have consistently said that raising taxes would be my last resort, we are now at that point.

Therefore, to achieve a maintenance budget, I propose two measures to keep our budget balanced.

First is an increase in our cigarette tax of 34 cents per pack that brings us up to the national average of 62 cents. This money will go directly to the general fund.

Second is an increase in the sales tax.

One and a half cents, also directed to the general fund, will get us through this budget crisis and provide the stability we need while the economy continues to recover. My recommendation is to have this measure expire on June 30, 2006.

I do not make these recommendations to you lightly.

I believe in limited government. I believe in lean government. But I also believe in providing for the essential functions of government.

For six years in the United States Senate, I consistently opposed raising taxes.

In four years as Governor, I've proudly signed 48 measures that have either reduced taxes or created significant tax incentives.

Before I took office, the average family of four making \$30,000 was paying almost 39% more in taxes to the state than they did this last year. And this year, I am proposing two more measures to provide tax relief to Idahoans.

The first I announced in December: a freeze in the unemployment insurance tax that was scheduled to increase each of the next two years.

This measure will keep \$120 million dollars in the hands of Idaho business owners and will have no impact on the state's general fund nor diminish the level of benefits.

Our goal is to keep Idaho workers working and getting paychecks instead of unemployment checks.

The second tax relief measure will provide an increase in the grocery tax credit...for all citizens. This added grocery tax credit will be permanent.

I ask you to support these measures, knowing full well that you now need the time to go through this...to examine all the options...just as I have done.

This is not easy, but there is a stark reality that we must face together.

My record over the past decade clearly establishes my credentials as a proponent of tax cuts and incentives.

But when the alternative is to ignore the needs of our citizens and fail to perform the essential functions of government, I must stand up and say what needs to be said.

And do what needs to be done.

Some might think I've overstated the case...but I have not.

On Thursday, you will see more details and again, I fully realize that you need the time to go through this process, as I have...and I believe you'll come to see the same realities.

Clearly, the budget and Idaho's fiscal crisis will occupy much of the debate this legislative session.

But while working through the budget, we must not overlook the other critical issues that will come before this Legislature.

We must continue our efforts to address critical school facility needs just as we've done in Troy, Wendell, Minidoka, Fremont and Wallace school districts. We have made further commitments to assist all school districts and this year we will keep that promise.

With a growing prison population, we need to take a look at one of the Blue Ribbon Task Force recommendations to review our sentencing guidelines and make adjustments where appropriate.

I am aware that there are discussions concerning frivolous lawsuits that adversely impact the business climate and health care costs in Idaho. We must create an environment that allows businesses to continue to invest and thrive in Idaho, and slows the rising costs of health care.

There is now consensus language to correct a technical flaw in the sentencing process in death penalty cases. I strongly support the death penalty and will sign this legislation as quickly as you send it to my desk.

To meet our growing needs at our colleges and universities, we need to move forward with the campus construction projects that you approved two years ago. This year, with low interest rates and an eager construction industry, the conditions are ideal to proceed with these projects, providing an economic stimulus in every part of the state and creating jobs and opportunities for our citizens.

11,000 students are benefiting from the Promise Scholarships and we must restore full funding. And in honor of the late Senator whose vision led to the creation of these scholarships, I propose designating them as the Robert R. Lee Promise Scholarship.

Ladies and gentlemen of the Legislature and fellow Idahoans, this has not been an easy message for me to deliver tonight.

It is far more enjoyable to allocate our resources in good times...but folks, these are tough times that require tough decisions.

Our vision for the future must not be clouded by the fears of what could be, but clarified by the reality of what is, and renewed by the hope of what can be.

Many of the decisions we will make this year will be difficult.

But we should never make any decisions because they're easy...or because they're convenient...or because they're popular...we must make them because they're right.

Any state can make progress in good times. It's the great states that make progress in the tough times.

It is in the darkest hours that the brightest stars shine brighter.

And now is the time for Idaho to shine.

Thank you.